

Fly Me, I'm Spooky

CIA Is Apparent Seller

Of a Charter Airline,

But Nobody's Talking

Southern Air Transport Sale

Is Assailed by Competitors;

The CAB Acts in Secrecy

Still Another Muddled' Deal

BY TODD E. FANDELL

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All the guys in the air-charter business used to wonder why Southern Air Transport (unrelated to Southern Airways) didn't fully exploit the mushrooming charter market. It had the money, it had valuable routes awarded by the Civil Aeronautics Board, and it was modestly thriving. Yet the Miami-based outfit never really seemed to take off.

Competitors suspected, and now they think they know for sure, the reason: For 13 years, Southern has been secretly—and possibly illegally—owned and controlled by the Central Intelligence Agency.

This is coming to light because of an attempt to sell the line and to get the sale approved, secretly, by the CAB. So far, the CAB has appeared to cooperate. Despite legal requirements that public hearings be held on applications to transfer ownership or control of the companies it regulates, the CAB has withheld documents and conducted a closed-door hearing on the sale application. The agency has gone so far as to require oaths of secrecy from witnesses who appeared in the five-day closed hearing in June. "We weren't even supposed to tell anyone how long the hearing lasted," says a lawyer close to the case.

The issue focuses on the attempt by Stanley J. Williams, 52-year-old president and a director of Southern, to buy 100% of the line for \$5.1 million. Mr. Williams has told the CAB he already owns one-third, and he wishes to buy the remaining two-thirds from its other two directors, both former high-ranking government officials.

Evidence: Circumstantial but Spooky

Distressed by the prospect of stiffened competition from a line they say couldn't have survived without CIA help, four major charter competitors—joined by eight scheduled airlines—are opposing the sale. The protesting carriers insist that none of the three directors is a true owner of Southern. They are nominees, the carriers say, for the real owner and seller—the CIA.

One source close to the controversy says: "The CIA has maneuvered itself into disguise of still another one of its muddled operations because it failed to take into account one important factor it should have foreseen. It didn't anticipate the ire of private-enterprise carriers never being forced to compete with an airline that exists only because it was nationalized by a government."

The evidence, it should be noted, is circumstantial. The protesting carriers have been frustrated in proving their contentions, largely because the CAB has ordered numerous documents relating to their charges withheld from public view. Yet an investigation into material that still is available for public inspection—and talks with a number of airline and governmental sources acquainted with Southern's history—shows a series of maneuvers that strongly suggest a CIA interest in Southern. Southern, moreover, has been linked firmly in records to Air America, a Southeast Asia aviation operation known to be a CIA concern.

Southern's attorney is James H. Bastian, who also is an officer of Air America. Last June, in asking the CAB for a secret hearing, he told the agency that information about Southern's "beneficial," or true, ownership "can be better facilitated in an executive session" and that he planned to present only two witnesses: Mr. Williams and Lawrence Houston.

Confusing Ownership Changes

Mr. Houston, at the time, was general counsel for the CIA. He retired at the end of June, though he still maintains a CIA office as a "consultant." Aside from confirming that, a spokesman for the CIA's office of the general counsel declines to comment on the case.

But a former high-ranking CAB official is more talkative. He says the CIA has controlled Southern, and "the CIA got Southern because it was irritated over the way its Air America cover was so thin it had become a laughing matter."

Southern didn't start out as a CIA front. It was founded in 1947, apparently without CIA help, by Frederick C. Moor, who died recently. Mr. Williams, who had held several air-cargo jobs after his World War II Navy tour, joined Southern in 1949. Two years later, he became secretary-treasurer and bought one share of stock for \$100. A second share was sold to one Martin S. McHugh. Mr. Moor held the other 98 shares. As late as 1958, that was the ownership structure the line reported in routine filing with the CAB.

By 1960—just how is not explained in the records—Mr. McHugh seems to have been out of the picture. The evidence indicates that in August 1960 a critical change in ownership came about.

Southern, in documents filed with the CAB, now leaves the impression that the would-be sellers of their interest—Percival Flack Brundage and Perkins McGuire—at that time bought their interest from Mr. Moor, for \$260,000, and Mr. Williams, for \$40,000, for a total of \$300,000. Although they normally would explain it, public records at the CAB don't show how Mr. McHugh disposed of his interest, or how Mr. Williams apparently increased his to the point that he received more than one-seventh the purchase price. Nor do they show how he ever came to own the one-third interest Southern now says he owns. (Mr. Williams has been unavailable for comment.)

Mr. Brundage, now 81 years old, was a director of the Bureau of the Budget under President Eisenhower. Mr. McGuire, now 68, is a businessman who was Assistant Secretary of Defense under Mr. Eisenhower. These men, it is said, were the CIA's nominees in purchasing Southern. Mr. Brundage

Continued From Page One

dage couldn't be reached for comment. Mr. McGuire declines to comment fully. "However, I do want to say," he adds, "that these sorts of things have gone on before, and there is nothing really wrong with what was done here, in my opinion."

He says that he never invested any of his own money in Southern, nor would he receive any money from the proposed sale now pending before the CAB.

Then who did buy Southern? And who will get the money from its sale? Whoever it is, it wasn't long after August 1960, that some airline executives became aware of what they considered a peculiar relationship between Southern and the government. One man who did is Clayton L. Burwell, who at the time was president of the Independent Airlines Association, an industry group.

Deals With Air America

Right after the 1960 change in ownership, Mr. Burwell says, Southern "under mysterious circumstances" was awarded a government contract for inter-island cargo operations among Japan, the Philippines and Taiwan. Southern, he says, "seemed unqualified" when its equipment and operating experience were compared with others who competed for the contract. So on behalf of the industry association, Mr. Burwell tried to protest the award. He abandoned the protest, he says, when told "by sources on Capitol Hill" that Southern was owned or controlled by the CIA, that the contract award had been requested by the CIA and that "we could expect no help in securing review (of the award)."

About the same time, Air America and Southern developed a close financial relationship.

Within a month of the 1960 ownership change, Air America lent to Southern the full \$1.7 million purchase price for two Douglas DC-6 aircraft that Southern was buying from Air America. And in late 1966, six years later, Air America gave Southern a direct, unsecured loan of \$5.7 million.

Other aid to Southern was indirect. In 1968 and 1969, Southern borrowed \$6.7 million from Manufacturers Hanover Trust Co. to buy two Lockheed Hercules turboprops. The loans were guaranteed by an outfit called Pacific Corp., which lists itself as an "aviation investment" firm.

More Air America Help

Pacific Corp. would seem to be another CIA firm. Its chief asset is listed as Air America. Manufacturers Hanover is Air America's major bank, and it is widely believed to be the CIA's bank as well. Manufacturers Hanover will discuss none of these relationships—in line, it says, with its policy of not disclosing customers' affairs.

More recently, Air America has funneled money to Southern through Actus Technology, a company also reportedly owned and managed by Messrs. Williams, Brundage and McGuire. Actus holds the lease on the nine-acre site occupied by Southern at Miami International Airport and subleases it to Southern. Its assets consist almost entirely of loans to Southern. In one recent 15-month period, Actus lent Southern \$14 million in funds that Actus apparently borrowed from Air America.

At the moment, Southern owes Actus a balance of \$3 million on the latest loan. Part of Mr. Williams' purchase price for Southern (plus the acquisition of Actus) is to be used to pay off that amount. Actus, in turn, proposes to pay off its outstanding \$3,125,000 debt to Air America with that \$3 million plus \$125,000 in funds to be borrowed from a Miami-area bank. In a report that came to light in the CAB proceedings, Coopers & Lybrand, the auditing firm for Southern and Air America, has noted that Southern also owes Actus more than \$800,000 in unpaid interest. But the firm has said that these amounts don't show up in the financial statements of either firm, and Coopers & Lybrand assumes—without further explanation—that repayment will never be required.

Patriotism and Favoritism

Right now, Southern has CAB certificates to provide cargo and passenger charter service within the U.S., between the U.S. and the Caribbean, and across the Pacific to Asia and Australia. Its most valuable asset is the trans-Pacific certificate, one of only three awarded by the CAB in a hotly contested 1966 case. People in the business still marvel at this award, because Southern's presentation, they say, was the least impressive of the dozen or so carriers

that wanted rights to fly the Pacific. "There is no question that Southern's application was significantly different from the others and definitely not on a par with them," says Jack Rosenthal, former director of the CAB's bureau of operating rights.

Mr. Rosenthal concedes Southern got the certificate because the CAB was aware the CIA wanted it that way. "It would have been the height of folly not to go along," he says, "especially when you consider the President has the ultimate say in any international route matter."

Reluctantly, competing carriers accepted the award. "I guess our attitudes about patriotism and such were a little different then, and we assumed there was a national defense need," says G. F. Steedman Hinckley, chairman of Overseas National Airways, one of the charter lines protesting the proposed sale of Southern.

Even now, the protesting lines are fighting the sale of Southern regretfully. "This matter reached the point where its potential business impact on all of us was so great we reluctantly had to fight it," says an attorney for one. He points out that trans-Pacific certificates are nearing renewal time, and the carriers each want a fair shot at the potentially lucrative business.

And Secret Subsidies?

Precisely how Southern was used—if it was—to further CIA operations isn't clear. Until last year, most of its reported revenue had come from military charter work in the Pacific and Southeast Asia. With the curtailment of U.S. military operations there, it has been suggested, the CIA didn't need Southern so badly. It has been modestly profitable through the years, according to financial statements filed with the CAB. It reportedly had net income of \$155,000 last year even though revenue fell sharply to \$8.2 million from \$11 million in 1971.

The competing airlines suggest that a source of income totaling \$6.9 million since 1963, labeled "logistical support group contract revenue" actually represents illegal government subsidy payments to Southern, probably for secret CIA operations.

The competing airlines also contend, among other things, that changes in Southern's ownership in the past weren't accurately or legally reported to the CAB, as the law requires—and that Southern must "purge" itself of its improper reporting before its sale can even be considered. They argue, too, that the law doesn't permit the government to operate an airline certificated by the CAB.

The law governing CAB hearings on changes of ownership or control of certificated airlines provides for executive sessions only when personal matters, or confidential business information, or national defense would be jeopardized. So far as can be determined, none of these issues has been formally raised by Southern; instead, the line has claimed that public hearings would prove "embarrassing."

The CAB law judge who held the closed hearing last June, and before whom the case is pending, did note that he had received a communication from an unnamed government agency asking for secrecy in the case. He said the protesting airlines assert that no other such CAB hearing has been held in executive session since World War II.

SALE HEARING RAISES SPY QUESTIONS**CIA and the Southern Airline**

By Stephen M. Aug
Star-News Staff Writer

Southern Air Transport is an airline with the authority to operate a charter business nearly anywhere in the world. Stanley G. Williams is the president of Southern, and he would like very much to buy the line from its present owners.

All in all a simple enough matter, complicated only by one thing: Southern has, for about 13 years, apparently been owned — secretly and perhaps illegally — by the Central Intelligence Agency.

It is a set of circumstances that has

led to one of the most bizarre airline acquisition cases ever to come before the Civil Aeronautics Board. With the hearings ended, CAB Administrative Law Judge Milton Shapiro has begun writing his report on the case.

Lawyers representing Williams have tried to keep all mention of the CIA out of the case.

They have been successful in convincing Shapiro to hold nearly the entire hearing on the matter in secret — with those taking part being required to take an oath that they wouldn't disclose what transpired.

They have even been able to keep out of the public record parts of some complaints made by rival charter airlines who fear that Williams is getting a windfall by being allowed to purchase from a government agency privately — without public bidding — an airline with valuable CAB operating authority.

CAB RECORDS show that Southern Air Transport was incorporated in Florida in 1947. The firm holds authority to transport inclusive charter tours within this country and between the United States and American Samoa, Guam, the

See AIRLINE, A-6

Johnston Islands, the Marshall Islands, Okinawa, Wake and points in Australia, Indonesia and Asia, as well as to Caribbean Islands including Haiti and the Dominican Republic. It also has worldwide authority under Defense Department contracts, and holds authority to transport cargo to Central and South America.

(Southern Air Transport is not related to Southern Airways, a domestic scheduled airline that serves the southern United States.)

Williams joined Southern in its operations department in 1949 and, according to his biographical statement, worked his way up to president. He is also listed as a one-third owner, along with Percival F. Brundage and Perkins McGuire.

Brundage was director of the Bureau of the Budget during the Eisenhower administration and McGuire was a deputy assistant secretary of defense and later an assistant secretary for international security affairs during the same periods.

Last March, Williams asked the CAB for authority to acquire all of the stock in Southern for about \$5.1 million. Within a few days several supplemental airlines that compete with Southern decided to intervene in the matter. They include Overseas National Airways, Trans International Airlines, World Airways and Saturn Airways.

The case was turned over to Shapiro for hearings.

ALMOST from the start, Southern officials balked at providing any information about the company or its ownership other than that which they had volunteered in the first place.

In early June, virtually on the eve of the hearings, ONA, Trans International

and World asked for a postponement. The material that Southern had provided, they said, raised serious questions as to what kind of business Southern was engaged in.

More serious, they contended, Southern and its officials may have violated federal law by transferring control of the airline on several occasions without CAB approval, and by creating at least one interlock

ing relationship with a second corporation engaged in aeronautics, also without CAB approval.

They pointed out that in January 1957, one Frederick C. Moor, Southern's founder, owned 98 of Southern's 100 shares of outstanding stock, according to CAB records.

But by August 1962, Moor had been joined by Williams, Brundage, and McGuire. As of Sept. 8, 1964, 84 shares were registered in the name of Suydam & Co., which turned out to be "street name" for Moor, Williams, McGuire and Brundage.

There was no explanation of how Suydam had come about — but by 1972 it had disappeared along with Moor's name (he died recently) and the only stockholders were Williams, Brundage and McGuire.

It was just after Brundage and McGuire had come to the firm around 1960 that massive amounts of money began to flow into the company from Air America, widely known as an arm of the CIA. About the same time Southern was given a contract for government inter-island business in the South Pacific under what one individual called strange circumstances.

THEN there was something called Actus Technology, a corporation which appears to have served no other purpose than as a conduit for funding Southern. Actus subleases some space at Miami International Airport to Southern, which has a base there.

Williams, McGuire and Brundage are the officers, stockholders and directors of Actus as well as of Southern. Federal law requires CAB approval before the same individuals may be associated with an airline and an aeronautics firm. No such approval was sought or received here.

CAB documents indicate that Actus' main role was lending money to Southern — more than \$11.6 million since 1969. Actus received money from Air America — nearly \$9.4 million between 1960 and 1973. During the same period, Southern itself borrowed nearly \$7.4 million from Air America. And Air America's parent, the Pacific Corp., guaranteed \$6.6 million of loans from

source of revenue each year starting in 1963 has been something identified as "Logistical Support Group contract revenue." From 1963 through 1972 revenue from this source totaled nearly \$6.9 million. Southern's annual revenues total about \$9 to \$10 million a year, an its profits for the most recent 12 months is about \$382,000.

SOUTHERN'S competitors in the air charter business contend the government money means "there is a strong presumption . . . that a substantial part of this sum represents a direct or indirect subsidy paid to Southern by the Govern-

Airline Cedes Route Rights

Southern Air Transport Inc., an airline allegedly owned for several years by the Central Intelligence Agency, has evidently decided to give up a large part of its operating authority, papers on file at the Civil Aeronautics Board showed today.

Souther, in a letter signed by its Washington lawyer, James H. Bastian, said it will not continue to prosecute its applications to renew a large portion of its operating authority.

The letter was sent to Robert Johnson, a CAB administrative law judge presiding over proceedings involving renewal of operating authority for a dozen supplemental airlines.

SOUTHERN currently holds authority to transport inclusive charter tours within the United States and between this country and a group of central and south Pacific islands. It also has authority to fly to Australia, Indonesia, and several Caribbean islands. The airline also has worldwide authority under Defense Department contracts and holds cargo authority to Central and South America.

The renewal proceeding would affect all but Southern's Defense Department contract authority and its totally domestic operations.

There was no indication in the letter as to why Southern had decided against seeking renewal of portions of its operating authority. Bastian was out of town and Stanley G. Williams, Southern's president, could not be reached.

Southern's decision means the airline will be left solely with its domestic operations and Defense Department contract business.

THE AIRLINE is involved in a fight with several other supplemental carriers. Williams wants to acquire control of the airline from its present owners but rival supplemental airlines have complained.

They say former stockholders unlawfully relinquished control of Southern to the CIA and that to allow Williams to simply acquire it now would give him a windfall to their disadvantage, since Southern has been the recipient of large sums of government financial aid.

The acquisition case hearings were held in secret, and Judge Johnson has not yet handed down his recommendations. Further, it is not clear just how much of

the judge's recommendations will be made public when it is completed. The full board will then have to decide whether to accept his recommendation.

Federal law requires CAB approval before control of an airline may be changed. Allegations of CIA ownership of Southern have never been proved or disapproved publicly.

Southern is not related to Southern Airways, a regional scheduled airline serving the southern United States.